

Message Text

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17

ACTION NEA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

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CEA-01 L-03 H-02 DODE-00 /096 W
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R 031407Z FEB 76

FM AMEMBASSY KUWAIT

TO SECSTATE WASHDC 4629

INFO AMEMBASSY ABU DHABI

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY TEHRAN

USINT BAGHDAD

UNCLAS KUWAIT 0576

E.O. 11652: N/A

TAGS: EFIN, BENC, XF, KU, SA

SUBJ: PERFORMANCE BOND REQUIREMENTS IN LARGE CONSTRUCTION PROJECTS

REF: 75 KUWAIT 5162, 75 STATE 254849 (BOTH NOTAL),

1. KUWAIT COMMENTS TO STATE REFTTEL ON PROBLEMS ARISING OUT OF PERFORMANCE BOND REQUIREMENTS CONTAINED IN FIRST REF. AS NOTED IN THAT CABLE PROBLEMS IN KUWAIT NOT AS BAD AS IN SAUDI ARABIA, BUT WE HAVE BEGUN TO HEAR SOME QUESTIONS AND COMPLIANTS ABOUT KUWAIT PROCEDURE FROM US BUSINESSMEN. WE GATHER THAT IN US COMMON PRACTICE IS TO HAVE SURETY BONDS ISSUED BY INSURANCE INDUSTRY RATHER THAN LETTER OF CREDMIHSISSUED BY BANKS. QUESTION HAS THEREFORE BEEN ASKED WHETHER US INSURANCE FIRMS COULD PLAY HELPFUL ROLE.

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2. IN KUWAIT, AS WE GATHER IS ALSO TRUE IN SAUDI ARABIA AND

OTHER NEIGHBORING STATES, GOVERNMENT INSISTS ON BANK GUARANTEES PROVIDED USUALLY BY LOCAL BANKS. IN TURN BANKS REQUIRE IRREVOCABLE LETTER OF CREDIT FROM US BANK, THEREBY RESULTING IN PROBLEM DESCRIBED IN PARA 1, STATE REFTTEL, I.E. FREEZING OF LARGE AMOUNTS OF CAPITAL. THUS, FOR EXAMPLE, LARGE US CONSTRUCTION FIRM CURRENTLY ACTIVE IN SAUDI ARABIA IS HINDERED FROM BIDDING ON MAJOR HIGHWAY PROJECT IN KUWAIT BECAUSE ITS CAPITAL EFFECTIVELY TIED UP BY SAUDI PERFORMANCE GUARANTEES.

3. WE WONDER WHY KUWAIT BANK GUARANTEES CANNOT BE SECURED BY US INSURANCE COMPANIES ACTIVE IN SURETY AREA THROUGH USE OF THIRD PARTY BENEFICIARY POLICIES. MANY INSURANCE COMPANIES ALREADY ARE FAMILIAR WITH CONSTRUCTION COMPANIES AND VICE VERSA. THIS SHOULD HELP INSURANCE COMPANIES TO BECOME ACTIVE IN MIDDLE EAST. WE THINK THIS WOULD ALSO RELIEVE PRESSURE ON US BANKS.

4. WE ANTICIPATE AT LEAST INITIAL RESISTANCE BY GOVERNMENTS IN THE AREA WHO MAY BE UNFAMILIAR WITH US INSURANCE FIRMS, BUT IF US INSURANCE AND CONSTRUCTION INDUSTRIES AGREE THAT USE OF SUCH FIRMS COULD HELP OVERCOME ANNOYING PROBLEM, THEIR SUPPORT COULD BE ELICITED IN DEVELOPING INFORMATION CAMPAIGN AIMED AT PERSUADING GOVERNMENTS IN THE AREA TO ACCEPT GUARANTEES BY INSURANCE COMPANIES RATHER THAN BANKS.

5. ACTION REQUESTED. BUSINESSMEN HERE ARE BEGINNING TO LOOK INTO ALTERNATIVE OF USING BUSINESS COMPANIES AS SURETIES AND HAVE ASKED US TO SEEK DEPARTMENT'S COMMENTS. WE WOULD BE PARTICULARLY INTERESTED IN KNOWING (A) WHETHER THERE ARE LEGAL PROBLEMS PREVENTING INSURANCE COMPANIES FROM BECOMING INVOLVED AND (B) REACTION OF INSURANCE COMPANIES TO OUR SUGGESTIONS.

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